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**火岩控股**  
FIRE ROCK HOLDINGS

**火岩控股有限公司**  
**FIRE ROCK HOLDINGS LIMITED**  
*(Incorporated in the Cayman Islands with limited liability)*

(Stock code: 8345)

## **ANNOUNCEMENT OF ANNUAL RESULTS FOR YEAR ENDED 31 DECEMBER 2016**

### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the “**Directors**”) of Fire Rock Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

## HIGHLIGHTS

- For the year ended 31 December 2016, the Group's revenue amounted to approximately RMB45.0 million (2015: approximately RMB30.1 million), representing an increase of approximately 49.5%.
- For the year ended 31 December 2016, the Group's gross profit amounted to approximately RMB37.6 million (2015: approximately RMB23.8 million), representing an increase of approximately 58.0%.
- For the year ended 31 December 2016, the Group's profit for the year amounted to approximately RMB22.0 million (2015: approximately RMB8.7 million), representing an increase of approximately 152.9%.
- The Directors do not recommend the payment of any final dividend for the year ended 31 December 2016.

## ANNUAL RESULTS

The board of Directors (the “**Board**”) of the Company hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the financial year ended 31 December 2016 together with the comparative figures for the financial year ended 31 December 2015.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	<i>Notes</i>	<b>2016</b> <b>RMB</b>	2015 <b>RMB</b>
<b>Revenue</b>	3	<b>44,976,635</b>	30,062,366
Direct costs		<u>(7,379,397)</u>	<u>(6,250,510)</u>
Gross profit		<b>37,597,238</b>	23,811,856
Other income	3	<b>2,565,342</b>	2,795,547
Game research costs		<b>(634,773)</b>	(207,902)
Distribution costs		<b>(768,320)</b>	(1,512,472)
Administrative expenses		<u><b>(12,827,467)</b></u>	<u>(14,079,622)</u>
Profit before income tax	4	<b>25,932,020</b>	10,807,407
Income tax expense	5	<u><b>(3,910,050)</b></u>	<u>(2,078,224)</u>
<b>Profit for the year</b>		<b>22,021,970</b>	8,729,183
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
— Exchange differences on translation of foreign operations		<u><b>2,058,966</b></u>	<u>605,624</u>
<b>Other comprehensive income for the year</b>		<u><b>2,058,966</b></u>	<u>605,624</u>
<b>Total comprehensive income for the year</b>		<u><b>24,080,936</b></u>	<u>9,334,807</u>
<b>Profit attributable to:</b>			
Owners of the Company		<u><b>22,021,970</b></u>	<u>8,729,183</u>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		<u><b>24,080,936</b></u>	<u>9,334,807</u>
<b>Earnings per share</b>		<b>RMB cents</b>	<b>RMB cents</b>
Basic and diluted	7	<u><b>14.23</b></u>	<u>7.27</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	<i>Notes</i>	<b>2016</b> <b>RMB</b>	2015 <b>RMB</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>1,556,933</b>	1,924,636
Intangible assets	<i>8</i>	<b>7,622,667</b>	9,536,376
		<u><b>9,179,600</b></u>	<u>11,461,012</u>
<b>Current assets</b>			
Trade receivables	<i>9</i>	<b>13,217,121</b>	10,825,753
Prepayments, deposits and other receivables		<b>687,993</b>	4,226,636
Short-term bank deposits	<i>10</i>	<b>10,000,000</b>	—
Cash and cash equivalents	<i>10</i>	<b>70,105,578</b>	19,364,920
		<u><b>94,010,692</b></u>	<u>34,417,309</u>
<b>Current liabilities</b>			
Trade and other payables	<i>11</i>	<b>1,901,447</b>	4,264,197
Deferred revenue	<i>12</i>	<b>3,313,956</b>	3,410,259
Tax payables		<b>1,430,067</b>	964,538
		<u><b>6,645,470</b></u>	<u>8,638,994</u>
<b>Net current assets</b>		<u><b>87,365,222</b></u>	<u>25,778,315</u>
<b>Total assets less current liabilities</b>		<u><b>96,544,822</b></u>	<u>37,239,327</u>
<b>Non-current liability</b>			
Deferred revenue	<i>12</i>	<b>336,171</b>	1,480,761
<b>Net assets</b>		<u><b>96,208,651</b></u>	<u>35,758,566</u>
<b>EQUITY</b>			
Share capital	<i>13</i>	<b>1,347,236</b>	1
Reserves		<b>94,861,415</b>	35,758,565
<b>Total equity</b>		<u><b>96,208,651</b></u>	<u>35,758,566</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

## 1. GENERAL INFORMATION

Fire Rock Holdings Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability on 3 November 2014. The address of its registered office is Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. Its principal place of business in the People’s Republic of China (the “PRC”) is located at 4/F, Dongjiang Environmental Building, No. 9 Langshan Road, Nanshan District, Shenzhen, Guangdong, the PRC.

The Company and its subsidiaries (collectively the “Group”) are principally engaged in browser and mobile games development, including the game design, programming and graphics and licensing of its games in the PRC and overseas markets.

In connection with the listing of the shares of the Company on the GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company underwent a reorganisation (the “Reorganisation”) and has become the holding company of its subsidiaries now comprising the Group since 5 May 2015. The shares of the Company were listed on the GEM of the Stock Exchange on 18 February 2016.

The financial statements for the year ended 31 December 2016 were approved and authorised for issue by the board of directors on 27 March 2017.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

### (a) Adoption of new or revised HKFRSs — effective 1 January 2016

HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle
Amendments to Hong Kong Accounting Standard (“HKAS”) 1	Disclosure Initiatives
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

The adoption of these new or amended HKFRSs has no impact on the Group’s financial statements.

(b) **New or revised HKFRSs that have been issued but are not yet effective**

The following new or revised HKFRSs, potentially relevant to the Group's financial statement, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKAS 7	Disclosure Initiative <sup>1</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>1</sup>
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15) <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

*Amendments to HKAS 7 — Disclosure Initiative*

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

*Amendments to HKFRS 15 — Revenue from Contracts with Customers*

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

*HKFRS 9 — Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

## *HKFRS 15 — Revenue from Contracts with Customers*

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

## *HKFRS 16 — Leases*

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is in the process of making an assessment of the potential impact of these pronouncements. The directors are not yet in a position to state whether the application of these new pronouncements will have material impact on the Group’s financial statements.

### 3. REVENUE AND OTHER INCOME

	2016 <i>RMB</i>	2015 <i>RMB</i>
<b>Revenue</b>		
License fees and royalties	<u>44,976,635</u>	<u>30,062,366</u>
<b>Other income</b>		
Government grants ( <i>Note</i> )	1,350,000	2,600,000
Interest income	278,141	170,096
Exchange gain, net	753,557	—
Others	<u>183,644</u>	<u>25,451</u>
	<u>2,565,342</u>	<u>2,795,547</u>

*Note:* During the year ended 31 December 2016, the Group received government grants from the government of the PRC for subsidising its self-developed games and qualifying as High and New Technology Enterprise amounting to RMB1,300,000 and RMB50,000 respectively. During the year ended 31 December 2015, the Group received government grants from the government of the PRC for subsidising its self-developed games and acquisition of property, plant and equipment amounting to RMB1,200,000 and RMB1,400,000 respectively.

### 4. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2016 <i>RMB</i>	2015 <i>RMB</i>
Auditors' remuneration	416,461	303,302
Depreciation of property, plant and equipment*	640,887	321,299
Amortisation of intangible assets**	5,278,759	2,339,913
Operating lease rentals in respect of land and buildings	1,653,826	1,516,479
Operating lease rentals in respect of servers	294,414	465,799
Write-off of property, plant and equipment	—	4,238
Loss on disposal of property, plant and equipment	—	1,904
Listing expenses	3,817,593	7,236,694
Exchange (gain)/loss, net	<u>(753,557)</u>	<u>206,159</u>

\* Included in distribution costs and administrative expenses in the consolidated statement of profit or loss and other comprehensive income

\*\* Included in direct costs in the consolidated statement of profit or loss and other comprehensive income



## 5. INCOME TAX EXPENSE

	2016 <i>RMB</i>	2015 <i>RMB</i>
PRC Enterprise Income Tax (“EIT”)		
— Current year	3,900,712	2,078,224
— Under provision in respect of prior years	9,338	—
	<u>3,910,050</u>	<u>2,078,224</u>

No Hong Kong Profits Tax was provided in the consolidated financial statements as the Group has no estimated assessable profit derived from or arising in Hong Kong during the years ended 31 December 2016 and 2015.

Provision for the EIT in the PRC is calculated at the applicable rate of 25% in accordance with the relevant laws and regulation in the PRC.

On 29 September 2013, Shenzhen Fire Element Network Technology Co., Ltd (“**Shenzhen Fire Element**”) was qualified as an enterprise of Software and Integrated Circuit Industries (軟件產業和集成電路產業) in the PRC and is exempted from EIT for two years starting from the first profit making year followed by a 50% reduction for the next three years on 5 August 2014. Shenzhen Fire Element started generating taxable profit during the year ended 31 December 2013 and therefore is exempted from EIT for the years ended 31 December 2013 and 2014. For the years ended 31 December 2015 and 2016, Shenzhen Fire Element enjoyed a reduced EIT rate of 12.5% as a 50% reduction on the statutory tax rate. The certification of software enterprise has been cancelled by the State Council of the PRC on 24 February 2015, but the aforementioned EIT preferential treatment related to certified software enterprise is still valid for now.

## 6. DIVIDEND

Neither dividend was paid or declared by the Company during the years ended 31 December 2015 and 2016, nor has any dividend been proposed since the end of the reporting period.

## 7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to owners of the Company for the year ended 31 December 2016 of RMB22,021,970 (2015: RMB8,729,183), and the weighted average number of 154,740,000 ordinary shares (2015: 120,000,000 ordinary shares).

The number of shares used to calculate the basic earnings per share for the year ended 31 December 2015 represent the number of shares of the Company immediately after the Reorganisation and the capitalisation issue (note 13(c)) but excluding any shares issued pursuant to the placing (note 13(d)) as if the shares issued under the Reorganisation and the capitalisation issue had been in issue on 1 January 2015.

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the years ended 31 December 2016 and 2015.

## 8. INTANGIBLE ASSETS

	<b>Game intellectual properties RMB</b>	<b>Development costs RMB</b>	<b>Total RMB</b>
<b>Cost</b>			
At 1 January 2015	155,827	6,000,359	6,156,186
Additions	—	5,874,075	5,874,075
Transfer from development costs	6,200,609	(6,200,609)	—
	<hr/>	<hr/>	<hr/>
At 31 December 2015 and 1 January 2016	6,356,436	5,673,825	12,030,261
Additions	—	3,365,050	3,365,050
Transfer from development costs	7,405,137	(7,405,137)	—
	<hr/>	<hr/>	<hr/>
At 31 December 2016	13,761,573	1,633,738	15,395,311
	<hr/>	<hr/>	<hr/>
<b>Accumulated amortisation</b>			
At 1 January 2015	153,972	—	153,972
Charge for the year	2,339,913	—	2,339,913
	<hr/>	<hr/>	<hr/>
At 31 December 2015 and 1 January 2016	2,493,885	—	2,493,885
Charge for the year	5,278,759	—	5,278,759
	<hr/>	<hr/>	<hr/>
At 31 December 2016	7,772,644	—	7,772,644
	<hr/>	<hr/>	<hr/>
<b>Net carrying value</b>			
At 31 December 2016	<u>5,988,929</u>	<u>1,633,738</u>	<u>7,622,667</u>
At 31 December 2015	<u>3,862,551</u>	<u>5,673,825</u>	<u>9,536,376</u>

## 9. TRADE RECEIVABLES

The Group allows credit period within 120 days (2015: 120 days) to its licensed operators.

The ageing analysis of trade receivables, based on invoice date, as of the end of the reporting period is as follows:

	2016 <i>RMB</i>	2015 <i>RMB</i>
0–30 days	5,162,885	3,184,160
31–60 days	4,689,544	3,220,362
61–90 days	2,607,341	1,370,568
91–120 days	145,776	1,368,849
more than 120 days	611,575	1,681,814
	<u>13,217,121</u>	<u>10,825,753</u>

## 10. SHORT-TERM BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2016 <i>RMB</i>	2015 <i>RMB</i>
Cash at banks and on hand	49,705,578	19,364,920
Short-term bank deposits with original maturity of less than three months	<u>20,400,000</u>	—
Cash and cash equivalents	70,105,578	19,364,920
Short-term bank deposits with original maturity of more than three months	<u>10,000,000</u>	—
	<u>80,105,578</u>	<u>19,364,920</u>

The analysis of short-term bank deposits and cash and cash equivalents denominated in foreign currencies at the end of reporting period is shown as follows:

	2016 <i>RMB</i>	2015 <i>RMB</i>
Euro (“EUR”)	38,073	31,478
Hong Kong dollars (“HKD”)	35,929,153	1,531,813
United States dollars (“USD”)	4,907,874	4,813,055
RMB	<u>39,230,478</u>	<u>12,988,574</u>
	<u>80,105,578</u>	<u>19,364,920</u>

RMB is not freely convertible into foreign currencies. Under the PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

## 11. TRADE AND OTHER PAYABLES

	2016 <i>RMB</i>	2015 <i>RMB</i>
Trade payables	99,000	99,000
Accruals	1,295,044	3,898,613
Other payables	<u>507,403</u>	<u>266,584</u>
	<u>1,901,447</u>	<u>4,264,197</u>

An ageing analysis of the Group's trade payables at the end of reporting period, based on the invoice date is as follows:

	<b>2016</b> <b>RMB</b>	2015 <b>RMB</b>
Less than 30 days	—	99,000
More than 1 year	<b>99,000</b>	—
	<b>99,000</b>	99,000

## 12. DEFERRED REVENUE

	<b>2016</b> <b>RMB</b>	2015 <b>RMB</b>
Deferred license fees		
— Current	<b>3,313,956</b>	3,410,259
— Non-current	<b>336,171</b>	1,480,761
	<b>3,650,127</b>	4,891,020

## 13. SHARE CAPITAL

	<b>2016</b>		2015	
	Number	Amount <b>RMB</b>	Number	Amount <b>RMB</b>
<b>Authorised:</b>				
Ordinary shares of HKD0.01 each				
At 1 January	<b>39,000,000</b>	<b>312,000</b>	39,000,000	312,000
Increase in authorised shares ( <i>note (b)</i> )	<b>461,000,000</b>	<b>3,887,383</b>	—	—
At 31 December	<b>500,000,000</b>	<b>4,199,383</b>	39,000,000	312,000
<b>Issued and fully paid:</b>				
Ordinary shares of HKD0.01 each				
At 1 January	<b>100</b>	<b>1</b>	97	1
Issue of shares pursuant to the Reorganisation ( <i>note (a)</i> )	—	—	3	—
Capitalisation issue ( <i>note (c)</i> )	<b>119,999,900</b>	<b>1,011,899</b>	—	—
Placing ( <i>note (d)</i> )	<b>40,000,000</b>	<b>335,336</b>	—	—
At 31 December	<b>160,000,000</b>	<b>1,347,236</b>	100	1

Notes:

- (a) As at 1 January 2015, total 97 ordinary shares of the Company were issued to the Company's shareholders. Pursuant to the Reorganisation of the Group, on 2 June 2015, the Company, Elite Charm Ventures Limited ("Elite Charm"), one of then shareholders of Shenzhen Fire Element, and Fire Rock International (HK) Limited ("Fire Rock (HK)") entered into a supplemental reorganisation equity transfer agreement, pursuant to which the Company agreed to allot and issue 3 shares to Elite Charm, representing 3% of the then enlarged issued share capital of the Company after allotment at a consideration of RMB330,000, which the parties agreed has

to be used to fully set off the consideration payable by Fire Rock (HK) to Elite Charm under the reorganisation equity transfer agreements. The 3 shares were then allotted and issued by Company to Elite Charm, credited as fully paid, on the same date.

As a result of the above allotment, the total number of issued shares of the Company increased to 100 shares as at 31 December 2015.

- (b) On 24 January 2016, the shareholders of the Company resolved to increase the authorised share capital of the Company from HKD390,000 to HKD5,000,000, divided into 500,000,000 shares each by the creation of an additional 461,000,000 shares.
- (c) Pursuant to the resolutions passed by the shareholders of the Company on 24 January 2016, conditional on the share premium account of the Company being credited as a result of the issue of the shares by the Company pursuant to the placing as mentioned below, the issue of a total 119,999,900 shares by the Company to the shareholders on a pro-rata basis by way of capitalising an amount of HKD1,199,999 (equivalent to approximately of RMB1,011,899) from the share premium account of the Company has been approved.
- (d) On 18 February, 2016, the Company's shares were listed on the GEM of the Stock Exchange and 40,000,000 ordinary shares were issued to the public by way of placing at HKD1.28 per share.

Of the gross proceeds from the placing of HKD51,200,000 (equivalents to approximately RMB42,923,008), HKD400,000 (equivalents to approximately RMB335,336) representing the aggregate par value of shares issued was credited to the Company's share capital whereas the remaining amount of HKD50,800,000 (equivalents to approximately RMB42,587,672) was credited to share premium account as at 31 December 2016.

The share issuance expenses, which amounted to HKD7,817,662 (equivalents to approximately RMB6,553,859), was deducted from share premium account as at 31 December 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND PROSPECTS

#### Overview

The Group is a game developer focusing on the development of browser and mobile games. We have launched various language versions for the games we developed and licensed our self-developed games to licensed operators around the world, so that the players around the world can enjoy our games on browser and mobile platforms. Our games adopt the free-to-play model. Players may log-in their game accounts to play our browser games on the browser directly. In addition, players may download our mobile games from third party internet platforms such as Apple's App Store or Google Play directly onto their mobile devices, such as iPhones, iPads and Android-based smartphones or tablets to access and log-in to their game accounts to play our games. To achieve a diversified player base, we have developed our games in various genres with different playing styles.

2016 was an important year for the Group. During the year, our Company's shares were listed on the GEM of the Stock Exchange, which improved capital strength and corporate governance of the Group. The Group effectively captured the development opportunity from the fast growing global mobile markets and commercially launched four mobile games successively, being the mobile versions of Hero's Crown (英雄皇冠), Endless Battles (無盡爭霸), Legend of Fairies (萌仙記) and Road of Vengeance (復仇之路), which further expanded our game portfolio and diversified our revenue sources.

During the year ended 31 December 2016, we have licensed six self-developed games in aggregate, including the mobile and browser versions of Kings & Legends (王者召喚) series, the mobile and browser versions of Hero's Crown (英雄皇冠) series, the browser version of Heroines of Three Kingdoms (姬戰三國) series, the mobile version of Endless Battles (無盡爭霸) series, the mobile version of Legend of Fairies (萌仙記) series and the mobile version of Road of Vengeance (復仇之路) series to various game operators for the operation, publication and distribution of such games within an agreed period and within designated territories.

In 2016, in response to the rising quality standards put forward by our players on the playability, convenience, image quality and service level of our games, the Group kept on upgrading our browser games so that our revenue derived from browser games reached RMB26.9 million. Despite a decrease of 7.9% as compared to 2015, the revenue derived from our browser games still accounted for 59.8% of our total revenue. The decrease was attributable to the fact that the Group mainly devoted its resources on the R&D of mobile games while maintaining existing browser games during the year, which was in line with our development strategies of reducing the amount while improving the profitability of browser games.

In 2016, the revenue derived from mobile games for the Group amounted to RMB18.1 million, represented an increase of 1,911.1% as compared to 2015. The increase was mainly due to the four new mobile games which were commercially launched during the year attained satisfying results.

#### Industry Review

During the year, although the global game industry was highly competitive, with further enhancement of broadband network and improvement of R&D technology and upgrade of equipment, hardware and techniques, in particular the growing popularity of smart mobile devices and the development of device technology, client game users, browser game users and mobile game users experienced a significant growth. With the emergence of development tools and technology like Unity3D and Html5,

the performance of games is prominently enhanced. Those factors contributed to the substantial growth of the game industry as compared to last year as a whole, and the growth of mobile games was particularly outstanding. As mobile games is the target market we have always been focusing on, we have been actively participating and investing during the year, in order to achieve breakthrough amid the highly competitive mobile game market.

## **Our Games**

In 2016, we adhered to our advantage in research and development and captured the huge development opportunity from the fast growing game markets domestically and abroad. We enhanced our research and development capability to develop new and innovative mobile games and updated and improved the existing games. During the year, we grasped our advantage in research and development and our strong accumulation of technological knowledge and commercially launched four mobile games, being the mobile versions of Hero's Crown (英雄皇冠), Endless Battles (無盡爭霸), Legend of Fairies (萌仙記) and Road of Vengeance (復仇之路), which further expanded our game portfolio, diversified our revenue sources and better captured the fast growing opportunities in global mobile game market.

As of 31 December 2016, six main series of games, in aggregate, including the mobile and browser versions of Kings & Legends (王者召喚) series, the mobile and browser versions of Hero's Crown (英雄皇冠) series, the browser version of Heroines of Three Kingdoms (姬戰三國) series, the mobile version of Endless Battles (無盡爭霸) series, the mobile version of Legend of Fairies (萌仙記) series and the mobile version of Road of Vengeance (復仇之路) series have been commercially launched. Kings & Legends (王者召喚) is our flagship tactical trading card game series designed in a Japanese-styled fantasy setting; Hero's Crown (英雄皇冠) is our self-developed turn-based card driven strategic RPG series designed with an European medieval fantasy style; Heroines of Three Kingdoms (姬戰三國) is our self-developed side-scrolling browser-based adventure RPG series based on the historic era of the Three Kingdoms of ancient China; Endless Battles (無盡爭霸) is a placement game set in the Three Kingdoms of ancient China; and Legend of Fairies (萌仙記) is a leisure strategic game; and Road of Vengeance (復仇之路) is our self-developed horizontal RPG mobile card game based on the myths of western heroes.

Our two self-developed game series Kings & Legends (王者召喚) and Hero's Crown (英雄皇冠) continued to deliver satisfactory performance in the year and maintained an important position in our game portfolio. Of which, the percentage of revenue contribution to our total revenue from the Kings & Legends (王者召喚) series of games during the year was still approximately 24.6% and the percentage of revenue contribution to our total revenue from the Hero's Crown (英雄皇冠) series of games during the year achieved approximately 52.6%. Since the commercial launch of those two games in March 2012 and January 2015 respectively, their abilities to achieve a longer lifespan than the industry averages were attributable to our ongoing efforts in carrying out upgrades and enhancements to the content of the games with the view to retain player interest, increase player engagement to the game and enhance the players' gaming experience. It also generates stable revenue for us.

The browser version of our Heroines of Three Kingdoms (姬戰三國) series was commercially launched in January 2015. The game series recorded revenue of approximately RMB0.6 million for the year ended 31 December 2016.

In 2016, we achieved commercial launch of three new mobile game series including Endless Battles (無盡爭霸) series, Legend of Fairies (萌仙記) series and Road of Vengeance (復仇之路) series, which further expand our game portfolio and diversify our games. Revenue derived from these three new games amounted to approximately RMB9.7 million, representing 21.5% of our total revenue. The mobile version of Endless Battles (無盡爭霸) series of games was commercially launched in February 2016. During the year ended 31 December 2016, revenue derived from this game series amounted to approximately RMB2.9 million. The mobile version of Legend of Fairies (萌仙記) series of games was commercially launched in March 2016. During the year ended 31 December 2016, revenue derived from this game series amounted to approximately RMB4.6 million. The mobile version of Road of Vengeance (復仇之路) series of games was commercially launched in August 2016. During the year ended 31 December 2016, revenue derived from this game series amounted to approximately RMB2.2 million.



The table below sets forth the six main series of games commercially launched by our licensed operators as of 31 December 2016:

Language version	Game title	Platform	Initial commercial launch date
<i>Kings &amp; Legends (王者召喚) series of games</i>			
English	Ancient Summoner/Rise of Mythos (Name changed in June 2014)	Browser	May 2013
	Kings and Legends	Browser	December 2012
	Kings and Legends	Mobile	May 2014
Japanese	デイヴァイン・グリモワール／Divine Grimoire	Browser	September 2012
	王者召喚~禁斷の魔導書	Mobile	September 2014
	のすたるじっくガールズ	Browser	November 2016
German	Kings and Legends	Browser	July 2013
French	Kings and Legends	Browser	December 2013
Portuguese	Rise of Mythos	Browser	January 2014
Traditional Chinese	卡卡們的大亂鬥	Browser	June 2012
	卡卡們大亂鬥	Mobile	April 2013
Simplified Chinese	王者召喚	Browser	March 2012
Russian	Боги войны	Browser	June 2015
Turkish	Efsanelerin Öfkesi	Browser	July 2016
<i>Hero's Crown (英雄皇冠) series of games</i>			
English	Summoner's Legion	Browser	January 2015
French	Summoner's Legion	Browser	April 2015
German	Summoner's Legion	Browser	April 2015
Simplified Chinese	英雄皇冠	Browser	March 2015
Traditional Chinese	卡卡們的大亂鬥II：英雄皇冠	Browser	June 2015
Japanese	ヴェルストライズ／Velstrise	Browser	September 2015
New Malay	Death of Shadow (formerly known as: Wgame)	Mobile	February 2016
Simplified Chinese	魔戒外传	Mobile	April 2016
<i>Heroines of Three Kingdoms (姬戰三國) series of games</i>			
Simplified Chinese	姬战三国	Browser	January 2015
Traditional Chinese	妖姬傳	Browser	June 2015
<i>Endless Battles (無盡爭霸) series of games</i>			
Simplified Chinese	无尽爭霸	Mobile	February 2016
<i>Legend of Fairies (萌仙記) series of games</i>			
Simplified Chinese	萌仙记	Mobile	March 2016
<i>Road of Vengeance (復仇之路) series of games</i>			
Simplified Chinese	复仇之路	Mobile	August 2016

As of 31 December 2016, we also had four game series under research and development, including the Sweeties Fighting (零食大亂鬥) series, the War of the Sulfulons (薩弗隆戰記) series, the Number Drop series and the G-game series. It is intended that these four games will be developed into different genres and in different languages to be launched globally. Subject to their development progress and market response, it is estimated that these four new games will be launched in the first quarter of 2017 to the second quarter of 2017.

<b>Game Title</b>	<b>Genre</b>	<b>Expected Launch Date</b>	<b>Start of Game Inception and Evaluation</b>
Sweeties Fighting (零食大亂鬥) series	ACT	Second quarter 2017	Second quarter 2016
War of the Sulfulons (薩弗隆戰記) series	ARPG	Second quarter 2017	Second quarter 2016
Number Drop series	2D leisure tournament	First quarter 2017	Third quarter 2016
G-Game series	PC leisure	First quarter 2017	Third quarter 2016

## **PROSPECTS**

The Group will further optimise the quality of self-developed game products with its excellent research and development core capability as the base, the stable research and development team as the support and a longer research and development cycle as to ensure and elevate the quality of its self-developed products. The Group will persist in the simultaneous development model of various games which can assure the Group's competitiveness in research and development, and to maintain a multiple product portfolio. For our existing games, the Group will carry out ongoing update and optimisation of our games so as to enhance the bonding between game users and those games and generate stable revenue for us, we will at the same time raise the revenue generated from third-party internet platforms by mobile games launched during the year in order to further enhance the growth potential of mobile games. Our research and development team will continue to introduce new modes of play for the games, release games in more language versions so as to cater for different players and license the games to operators for operation. In the short-to-mid term, the games should see continuing revenue growth from newly-acquired users.

Looking forward to 2017, we will maintain our ongoing, timely and effective research as well as our capability in game upgrades, taking full advantage of our ascendancy in three aspects of our research and development capability, namely game planning, programming and graphic production. We will enhance our cooperation with licensed operators through discussion on the operation mode, precise management and way of promotion of our new games in order to give full play to our strengths in games research and development as well as to enhance the Group's profile in games research and development. Meanwhile, the Group has made active attempts into the development of innovative game types with further exploration, innovation and development. The Group will continue to enhance the investment in research and development and to attract and satisfy players with high-quality and diversified games. Given the success we obtained from our game products in the previous years and our continuous great efforts put into research and development, our Group will launch more outstanding new products.

## FINANCIAL REVIEW

### Revenue

We are engaged in the development of browser and mobile games, including game design, programming and graphics, and licensing of our self-developed browser and mobile games to licensed operators around the world.

During the year ended 31 December 2016, our revenue was originated from our licensed operators and derived from the following revenue types: (i) license fees in accordance with the contractual terms agreed with our licensed operators for granting the exclusive operating right for specific games within an agreed period and designated territories; and (ii) royalties which were calculated based on a pre-determined percentage sharing of the net sales of credits of our licensed operators which have been exchanged into our in-game tokens purchased through platforms designated by our licensed operators in accordance with the terms of the licensing agreements.

Our revenue increased by approximately 49.5% from approximately RMB30.1 million for the year ended 31 December 2015 to approximately RMB45.0 million for the year ended 31 December 2016. The increase in revenue was mainly due to the increase in revenue brought by the commercial launch of four mobile game series in 2016, including Hero's Crown (英雄皇冠) series of games, Endless Battles (無盡爭霸) series of games, Legend of Fairies (萌仙記) series of games and Road of Vengeance (復仇之路) series of games.

### Revenue by Game Platforms and Revenue Types

The table below sets forth the breakdown of revenue by game platforms and revenue types for each of the years ended 31 December 2015 and 2016:

	For the year ended 31 December			
	2016		2015	
	RMB'000	%	RMB'000	%
<b>Browser version</b>	<b>26,901</b>	<b>59.8</b>	29,164	97.0
License fees	3,160	7.0	2,370	7.9
Royalties	23,741	52.8	26,794	89.1
<b>Mobile version</b>	<b>18,076</b>	<b>40.2</b>	898	3.0
License fees	1,416	3.1	590	2.0
Royalties	16,660	37.1	308	1.0
	<b>44,977</b>	<b>100.0</b>	<b>30,062</b>	<b>100.0</b>

### Revenue by Game Series

The table below sets forth the breakdown of revenue by game series for each of the years ended 31 December 2015 and 2016:

	For the year ended 31 December			
	2016		2015	
	RMB'000	%	RMB'000	%
Kings & Legends (王者召喚)	11,044	24.6	15,779	52.5
Hero's Crown (英雄皇冠)	23,650	52.6	13,677	45.5
Heroines of the Three Kingdoms (姬戰三國)	589	1.3	606	2.0
Endless Battles (無盡爭霸)	2,940	6.5	—	—
Legend of Fairies (萌仙記)	4,550	10.1	—	—
Road of Vengeance (復仇之路)	2,204	4.9	—	—
	<u>44,977</u>	<u>100.0</u>	<u>30,062</u>	<u>100.0</u>

### Revenue by Geographical Markets

The following table sets forth our revenue from our games based on territories, as determined by type of settlement currency with licensed operators, in absolute amounts and as a percentage of our revenue for the years indicated:

	For the year ended 31 December			
	2016		2015	
	RMB'000	%	RMB'000	%
PRC <sup>1</sup>	36,010	80.1	15,376	51.1
PRC <sup>2, 4</sup>	1,962	4.3	1,717	5.7
PRC <sup>3, 4</sup>	3	—	36	0.1
North America <sup>2</sup>	2,235	5.0	5,596	18.7
Asia Pacific (including Japan and Taiwan) <sup>2</sup>	3,293	7.3	5,257	17.5
Europe <sup>3</sup>	1,474	3.3	1,842	6.1
Europe <sup>2</sup>	—	N/A	238	0.8
<b>Total</b>	<u>44,977</u>	<u>100.0</u>	<u>30,062</u>	<u>100.0</u>

#### Notes:

1. Settled in RMB
2. Settled in USD
3. Settled in EUR
4. Revenue derived from R2Game Co., Limited and Reality Squared Game Co., Limited, in which Reality Squared Game Co., Limited and R2Game Co., Limited are group companies based in the PRC. The license we gave to R2Game Co., Limited for the operation of our games had been transferred to Reality Squared Game Co., Limited during the year. Both companies had commercially launched our games in Europe and North America.

Revenue derived from Changyou.com (US) LLC. and ChangYou.com Limited, in which Changyou.com (US) LLC. and ChangYou.com Limited are group companies based in the PRC. The license we gave to Changyou.com (US) LLC. for the operation of our games had been transferred to ChangYou.com Limited during the year. Both companies had commercially launched our games in Europe and North America.

### *Average MPU and ARPPU*

The following table sets forth our average MPU and ARPPU for the years indicated.

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
<b>Kings &amp; Legends (王者召喚)</b>		
• Average MPU	<b>3,912</b>	6,664
• ARPPU <sup>4</sup> (RMB)	<b>215</b>	181
<b>Hero's Crown (英雄皇冠)</b>		
• Average MPU	<b>6,488</b>	2,983
• ARPPU <sup>4</sup> (RMB)	<b>309</b>	338
<b>Heroines of Three Kingdoms (姬戰三國)</b>		
• Average MPU	<b>162</b>	224
• ARPPU <sup>4</sup> (RMB)	<b>340</b>	223
<b>Endless Battles (無盡爭霸)<sup>1</sup></b>		
• Average MPU	<b>27,679</b>	—
• ARPPU <sup>4</sup> (RMB)	<b>9</b>	—
<b>Legend of Fairies (萌仙記)<sup>2</sup></b>		
• Average MPU	<b>11,991</b>	—
• ARPPU <sup>4</sup> (RMB)	<b>38</b>	—
<b>Road of Vengeance (復仇之路)<sup>3</sup></b>		
• Average MPU	<b>15,608</b>	—
• ARPPU <sup>3</sup> (RMB)	<b>31</b>	—

#### *Notes:*

1. The mobile version of Endless Battles (無盡爭霸) series of games was commercially launched in February 2016.
2. The mobile version of Legend of Fairies (萌仙記) series of games was commercially launched in March 2016.
3. The mobile version of Road of Vengeance (復仇之路) series of games was commercially launched in August 2016.
4. ARPPU is calculated by dividing the average monthly royalties from the net sale of credits of licensed operators for the in-game tokens during a certain period by the average MPU during the same period. As all of our games adopt the free-to-play model, the ARPPU of games should not be affected by the frequency of game players spending time on the games if they do not purchase credits from our licensed operators to exchange for in-game tokens which can be used for acquiring virtual items and premium features.

## **Direct Costs**

Our direct costs for the year ended 31 December 2016 amounted to approximately RMB7.4 million, representing an increase of approximately 17.5% as compared to approximately RMB6.3 million for the year end 31 December 2015. As we commercially launched two new browser games, being Hero's Crown (英雄皇冠) and Heroines of the Three Kingdoms (姬戰三國) at the beginning of 2015 and we spared substantially all the research staff from the two games for the maintenance of the games so as to fulfill the marketing and maintenance requirement of the games during their introduction stage; and because fewer games were in the game inception and development stage during 2015, direct staff costs were higher. During the year, the four new mobile games, being the mobile versions of Hero's Crown (英雄皇冠), Endless Battles (無盡爭霸), Legend of Fairies (萌仙記) and Road of Vengeance (復仇之路) were launched and the number of staff required for the maintenance of mobile games was much lower than that of browser games, direct staff costs decreased significantly compared with 2015, together with the increase in amortisation of our intangible assets resulted from the commercial launch of four mobile games, being the mobile versions of Hero's Crown (英雄皇冠), Endless Battles (無盡爭霸), Legend of Fairies (萌仙記) and Road of Vengeance (復仇之路) during the year, total direct costs for the year was higher as compared to 2015. In general, the increase in direct costs was in line with the increase in our game revenue in 2016.

## **Gross Profit and Gross Profit Margin**

Our gross profit for the year ended 31 December 2016 amounted to approximately RMB37.6 million, representing an increase of approximately 58.0% as compared to approximately RMB23.8 million for the year ended 31 December 2015. The increase in our gross profit was mainly due to the increase in revenue generated from newly commercialised games.

Our gross profit margin for year ended 31 December 2016 amounted to approximately 83.6% and approximately 79.2% for the year ended 31 December 2015. The increase in our gross profit margin was mainly due to the increase in revenue generated from newly commercialised games.

## **Other Income**

Our other income mainly consisted of interest income on short-term bank deposits and government grants. For the year ended 31 December 2016, our other income was approximately RMB2.6 million, compared with approximately RMB2.8 million of 2015. Such decrease was mainly attributable to the decrease of government grants of a PRC subsidiary of the Group received from the local government from approximately RMB2.6 million in 2015 to approximately RMB1.4 million during the year.

## **Game Research Costs**

Our game research costs for the year ended 31 December 2016 amounted to approximately RMB0.6 million, representing an increase of approximately 200.0% as compared to approximately RMB0.2 million for year ended 31 December 2015. The increase in our game research costs was mainly due to the fact that four new games were in the game inception and evaluation stage during the year.

## **Distribution Costs**

Our distribution costs for the year ended 31 December 2016 amounted to approximately RMB0.8 million, representing a decrease as compared to approximately RMB1.5 million in 2015. The decrease in our distribution costs was mainly due to the decrease in the number of promotional personnel.

## **Administrative Expenses**

Our administrative expenses for the year ended 31 December 2016 amounted to approximately RMB12.8 million, representing a decrease of 9.2% as compared to approximately RMB14.1 million for the year ended 31 December 2015. Without taking into account the listing related expenses, our administrative expenses for the year ended 31 December 2016 amounted to approximately RMB9.0 million, representing an increase of approximately 32.4% as compared to approximately RMB6.8 million for the year ended 31 December 2015. The increase in administrative expenses was mainly due to the increase in legal and professional fees upon the successful listing of our Group on the GEM of the Stock Exchange as well as the increase in rentals for our operating premises.

## **Income Tax Expense**

Our income tax expense for the year ended 31 December 2016 amounted to approximately RMB3.9 million while we recorded RMB2.1 million for the year ended 31 December 2015. The increase in our income tax expense was mainly because the profits of the PRC subsidiary of the Group increased which led to a higher PRC Enterprise Income Tax.

## **PROFIT FOR THE YEAR**

Given the aforesaid reasons, profit attributable to owners of the Company increased by approximately 152.9% from approximately RMB8.7 million for 2015 to approximately RMB22.0 million for 2016.

## **LIQUIDITY AND FINANCIAL RESOURCES**

In 2016, we mainly financed our business with cash generated from our operating activities. We intend to fund our expansion and business operations through our internal resources and on-going internal growth.

## **TREASURY POLICY**

During the year ended 31 December 2016, the Group deposited its idle capital with commercial banks in the PRC and Hong Kong as short-term time deposits to allow inactive capital of the Group to generate certain return and did not engage in any investments with high risks or speculative derivative instruments.

## **CASH AND CASH EQUIVALENTS**

As of 31 December 2016, our cash and cash equivalents amounted to RMB70.1 million, compared with RMB19.4 million as of 31 December 2015, which primarily consisted of cash at bank and cash on hand and which are mainly denominated in RMB (as to approximately 41.70%), HKD (as to approximately 51.25%), USD (as to approximately 7.00%) and other currencies (as to approximately 0.05%).

## CAPITAL EXPENDITURES

Our capital expenditures comprised expenditures on the purchase of furniture and office equipment and leasehold improvements. For the year ended 31 December 2016, our total capital expenditures amounted to approximately RMB0.3 million, including the purchase of furniture and office equipment of approximately RMB0.3 million (2015: approximately RMB2.0 million, including the purchase of furniture and office equipment of approximately RMB1.8 million and leasehold improvement of approximately RMB0.2 million). We funded our capital expenditure by using our cash flow generated from our operations.

## CAPITAL STRUCTURE

The shares of the Company were listed on GEM of the Stock Exchange on 18 February 2016. The capital structure of the Company comprised issued share capital and reserves.

## BORROWING AND GEARING RATIO

As of 31 December 2016, we did not have any short-term or long-term bank borrowings.

As of 31 December 2016, the gearing ratio of the Group, calculated as total liabilities divided by total assets, was approximately 6.8% (31 December 2015: approximately 22.1%).

## CHARGE ON GROUP ASSETS

As of 31 December 2016, no asset of the Group was pledged as a security for bank borrowing or any other financing facilities (31 December 2015: Nil).

## INFORMATION ON EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2016, the Group had 75 employees (31 December 2015: 91), mainly worked and are located in the PRC. The table below sets forth the number of employees by function as at 31 December 2016 and 2015:

Department	2016		2015	
	<i>Number employees</i>	<i>% of total</i>	<i>Number employees</i>	<i>% of total</i>
<b>Management</b>	<b>9</b>	<b>12%</b>	8	9%
<b>Project development</b>	<b>46</b>	<b>61%</b>	55	60%
Game design	<b>13</b>	<b>17%</b>	14	15%
Programming	<b>20</b>	<b>27%</b>	21	23%
Art	<b>13</b>	<b>17%</b>	20	22%
<b>Project Support</b>	<b>14</b>	<b>19%</b>	23	25%
Marketing	<b>1</b>	<b>1%</b>	2	2%
Licensing and operator support	<b>8</b>	<b>11%</b>	15	16%
Information technology	<b>5</b>	<b>7%</b>	6	7%
<b>Finance and administration</b>	<b>6</b>	<b>8%</b>	5	6%
<b>Total</b>	<b>75</b>	<b>100%</b>	<b>91</b>	<b>100%</b>

The total remuneration of the employees of the Group was approximately RMB6.3 million for the year ended 31 December 2016 (2015: approximately RMB7.9 million).



The Group has established the remuneration committee on 24 January 2016 with written terms of reference in compliance with Appendix 15 to the GEM Listing Rules.

The Remuneration Committee will regularly review and recommend to the Board from time to time the remuneration and compensation of the Directors and senior management of the Group.

The Group offers competitive remuneration package commensurate in line industry practice and provides benefits to employees of the Group, including social insurance coverage, defined contribution retirement scheme and bonus. In determining staff remuneration, the Group takes into account salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group. The staff remuneration is reviewed regularly.

The Directors believe that maintaining a stable and motivated employee force is critical to the success of the Group's business. As a fast growing company, the Group is able to provide its employees with ample career development choices and opportunities of advancement. The Group organizes various training programs on a regular basis for its employees to enhance their knowledge of online game development, improve time management and internal communications and strengthen team building.

#### **SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

There was no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company for the year ended 31 December 2016.

#### **CONTINGENT LIABILITIES**

As of 31 December 2016, the Group did not have any significant contingent liabilities (31 December 2015: Nil).

#### **FOREIGN EXCHANGE RISKS**

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD, EUR, JPY, RUB and HKD. Approximately 19.9% of the revenue are denominated in currencies other than the functional currency of the operating units making the sales for the year ended 31 December 2016 (2015: approximately 48.9%). Therefore, foreign exchange risk primarily arose from recognised assets in the Group when receiving or to receive foreign currencies from overseas cooperated counter parties.

80.1% (2015: approximately 51.1%) of the transactions of the Group are denominated and settled in its functional currency, RMB. The Group's foreign exchange risk primarily arose from the cash and cash equivalents denominated in USD, EUR and HKD.

The Group currently does not have any hedging policy in respect of the foreign currency risk. However, our management team closely monitors foreign exchange exposure to ensure appropriate measures are implemented in a timely and effective manner. In this respect, we are not exposed to any significant foreign currency exchange risk in our operation.

#### **USE OF PROCEEDS FROM THE PLACING**

The shares of the Company were listed on the GEM of the Stock Exchange on 18 February 2016, and the net proceeds from the Placing was approximately HK\$28.9 million. During the year, the Group has spent approximately HK\$3.7 million on the development of new games, approximately HK\$2.1 million on the continual optimisation of our existing games on various platforms, and

approximately HK\$1.5 million on working capital and other general corporate purposes. The Group is currently actively seeking opportunities to obtain/acquire the adaptation rights of appropriate source materials, opportunities to acquire/invest in game developers, and enhance and diversify our game development capabilities.

## **RISK FACTORS FACED BY THE COMPANY**

The Group principally engaged in the developing of our games in different language versions and licensing our games to different licensed operators for operation internationally. The major risks involved in our business include credit risks, interest risks, liquidity risks, currency risks and business risks. Details of the abovementioned major risks and risk mitigation measures are set forth in note 28 “Financial risk management” to the financial statements for the year.

We believe that there are certain risks involved in our operations, mainly include (i) risks relating to our business; and (ii) risks relating to our industry.

### **(i) Risks relating to our business**

Although the revenue contribution by two of our games series, Kings & Legends (王者召喚) series and Hero’s Crown (英雄皇冠) series decreased from 98.0% in 2015 to 77.2% in 2016, in case of any unfavourable developments in relation to our existing self-developed games may materially and adversely affect our business, financial condition and results of operations. In response, we expanded our game portfolio during the year. In 2016, the mobile version of four games series, namely Hero’s Crown (英雄皇冠) series, Endless Battle (無盡爭霸) series, Legend of Fairies (萌仙記) series and Road of Vengeance (復仇之路) series were launched, and mobile version of four games series, being Sweeties Fighting (零食大亂鬥) series, War of the Sulfulons (薩弗隆戰記) series, Number Drop series and G-Game series will be launched soon, to further enrich our game portfolio.

We rely heavily on a limited number of licensed operators from which our revenue is sourced, and any deterioration or interruption of our business relationships with our licensed operators may have a material and adverse impact on our business, results of operations and financial position. To reduce our reliance on limited number of licensed operators, we have licensed our games to various new game operators as our licensed operators in 2016. For the year ended 31 December 2016, the proportion of the revenue contributed from our five largest licensed operators to our total revenue decreased to 78.9% (2015: 79.9%).

### **(ii) Risks relating to our industry**

As a game developer, we expect to face intense competition from many counterparts domestically and internationally. We also face stiff competition from other forms of entertainment generally available to the public such as console gaming, offline games, cinema, television, sports and music. In response, we continue to regularly upgrade and modify existing games to attract players to maintain sufficient interest in our game portfolio, and incentivise game players to increase their spending on our games. Furthermore, we also continue to focus on research and development for new games and explore new markets to maintain our competitiveness.

## **MANAGEMENT OF RISKS**

The audit committee of the Company is responsible for the risks management. The audit committee regularly reviews the company’s risk management and internal control system to ensure the system’s effectiveness. The audit committee also reviews the sufficiency of the Company’s internal resources

and staff qualifications, experience and trainings. The audit committee is in charge of reporting to the Board regarding the consideration and findings of investigations in risk management and internal control matters.

## **ENVIRONMENT POLICY AND PERFORMANCE**

In consideration of our industry characters, the Group has made plans, formulated standards, implemented, operated, reviewed and assessed matters relating to environment management. In daily activities, our Group strictly controlled the use of water and electricity in office, actively took measures to encourage our staff to follow the environmental protection philosophy to save water and electricity and conduct waste separation. The Group promoted electronic informatization management to build “paperless” office.

The Group has implemented internal recycling and reusing program on a continuous basis for consumable goods such as office papers to minimise the operation impact on the environment and natural resources. The Group has also negotiated with the property management companies of our leased properties in relation to the implementation of energy-saving measures for the use of air-conditioning in our office premises in order to reduce unnecessary electricity usage.

## **COMPLIANCE OF LAWS AND REGULATIONS**

The Company is aware of the importance of complying with the relevant laws and regulations. The Company has distributed human resources to guarantee our constant compliance to provisions and codes, and build good relationship with supervision authorities through effective communication. For the year ended 31 December 2016, to the knowledge of Directors, the Company is in compliance with the SFO, GEM Listing Rules and other relevant codes and regulations. During the year under review, the Group has complied, to the best of our knowledge, with the Securities and Futures Ordinance (“SFO”), the listing rules, the trading rules and the clearing house rules of the Stock Exchange, as well as the rules formulated by the Ministry of Cultural Management of the PRC government, being the Administrative Measures for Internet Information Services (互聯網信息服務管理辦法), the *Provisional Regulations on the Administration of Internet Culture* (互聯網文化管理暫行規定), the *Interim Measures for the Administration of Online Games* (網絡遊戲管理暫行辦法) and other relevant rules and regulations.

## **RELATIONSHIP WITH EMPLOYEES, LICENCED OPERATORS AND SUPPLIERS**

The relationships between the Group and employees, licensed operators and suppliers have material impact on our business and constant development. Therefore, the Group is dedicated to building a good relationship with employees, licensed operators and suppliers.

The Group regards its employees as the most important and valuable assets. The objective of human resources management is to motivate outstanding staffs with competitive remuneration package and comprehensive performance assessment, and assist the staff to develop their career and get promotion in the Group by providing suitable training and opportunities. The company also has conditionally adopted the share option scheme as recognition and rewards to eligible participants (including employees) for the contribution they made and will potentially make to the Group. The details of the share option scheme is set out in the section headed “Director’s Report”. Details about employees, remuneration policies and retirement benefits are set out in note 4(k) to the financial statements.

The customers of the Group are our licensed operators. We strive to maintain stable business relations with the existing licensed operators. Meanwhile, we also actively take measures to reduce the reliance on the major licensed operators through seeking new licensed operators (subject to our current licensing arrangements) for new games in new markets.

The main suppliers of the Group included the companies providing outsourcing services such as graphic designs, sound effects, background music, sub-segment updates and optimisations during the game developing and programming stages, server data centres and broadband service providers. We strive to maintain a stable business relationship with the current suppliers to ensure the stability of the services provided which is beneficial to our long-term game development and operation.

## **DIVIDENDS**

The Board does not recommend the payment of any dividend for the year ended 31 December 2016.

## **REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries repurchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

## **CORPORATE GOVERNANCE PRACTICE**

The Board believes that good and effective corporate governance practices are key to obtaining and maintaining the trust of our shareholders and other stakeholders, and are essential for encouraging accountability and transparency so as to sustain the success of the Group and to create long-term value for the shareholders of the Company.

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company has applied the principles and code provisions in the Corporate Governance Code (the "Code") as set out in Appendix 15 to the GEM Listing Rules. The Directors consider that the Company has complied with the code provisions as set out in the Code for the year ended 31 December 2016.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the required standard of dealings regarding directors' securities transactions as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Among other things, the Company periodically issues notices to its Directors reminding them to the general prohibition on dealing in the Company's listed securities during the blackout periods before the publication of announcements of financial results of the Group. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standards of dealings for the year ended 31 December 2016.

## **AUDIT COMMITTEE**

We established an audit committee on 24 January 2016 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraphs C3.3 and C3.7 of the Code. The primary responsibilities of the audit committee are to supervise our internal control, financial information disclosure and financial reporting matters. At present, the audit committee of our Company consists of Mr. Chan King Fai, Mr. He Yunpeng and Mr. Zhang Xiongfeng. The Chairman of the audit committee is Mr. Chan King Fai, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules.

The audit committee has reviewed the audited annual results of the Company for the year ended 31 December 2016 and made recommendations and advice.

## **SCOPE OF WORK OF BDO LIMITED**

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2016 as set out in this annual results announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2016. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagement issued by Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the annual results announcement.

## **PUBLICATION OF FINAL RESULTS AND DESPATCH OF ANNUAL REPORT**

This announcement will remain on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and the GEM website at [www.hkgem.com](http://www.hkgem.com), in the case of this announcement, on the "Latest Company Announcements" page for at least seven days from the day of its posting. This announcement will also be published on the Company's website at [www.firerock.hk](http://www.firerock.hk). The annual report of the Company for the year ended 31 December 2016 containing all the information required by the GEM Listing Rules will be despatched to the shareholders and published on the above websites in due course.

By order of the Board  
**Fire Rock Holdings Limited**  
**Huang Yong**  
*Executive Director and CEO*

Hong Kong, Monday, 27 March 2017

*As at the date of this announcement, the Chairman and non-executive Director is Mr. Zhang Yan; the executive Directors are Mr. Huang Yong, Mr. Wu Zhe and Mr. Rao Zhenwu; and the independent non-executive Directors are Mr. Chan King Fai, Mr. Zhang Xiongfeng and Mr. He Yunpeng.*